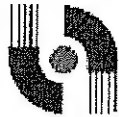


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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

15 MARCH 2019
9.00 a.m - 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. A farm worker gets paid today in money, but plans to spend the money next week. This illustrates which function of money?
 - A. store of value
 - B. unit of account
 - C. medium of exchange
 - D. standard of deferred payment
2. If Joey withdraws a RM500 from his checking account and Zack deposits another RM500 in his savings account, how will M1 and M2 change?
 - A. M1 will increase, and M2 will increase.
 - B. Both M1 and M2 will remain the same.
 - C. M1 will decrease, but M2 will remain the same.
 - D. M1 will remain the same, and M2 will increase.
3. The central bank _____.
 - A. does business only with the federal government
 - B. provides banking services to individuals and firms
 - C. provides banking services to banks but not individuals
 - D. does business with international organisations such as the United Nations
4. The discount rate is _____.
 - A. the interest rate that banks have to pay to the owners of bank deposits
 - B. the interest rate that banks pay for reserves that they borrow from the central bank
 - C. the interest rate that banks receive for the reserves that they have on reserve at the central bank
 - D. the interest rate that banks have to pay for any reserves that they borrow from the non-bank public
5. Which of the following reduces the money multiplier?
 - A. banks loan all their excess reserves
 - B. the central bank reduces the required reserve ratio
 - C. the central bank sells government securities
 - D. bank customers hold some of the loan proceeds as currency outside the banking system
6. When the central bank buys securities from the public, banks' reserves _____ and the quantity of money _____.
 - A. increase; increases
 - B. increase; decreases
 - C. decrease; increases
 - D. decrease; decreases

Continued...

7. If the price level rises, there is _____.
A. a leftward shift of the demand for money curve
B. a rightward shift of the demand for money curve
C. an upward movement along the demand for money curve and the curve does not shift
D. a downward movement along the demand for money curve and the curve does not shift
8. When the central bank increases the quantity of money, the _____.
A. equilibrium nominal interest rate falls
B. equilibrium nominal interest rate rises
C. supply of money curve shifts leftward
D. demand for money curve shifts rightward
9. In 2008, Carl began his career with HSBC. His starting salary was RM32,000. By 2010, his salary increased to RM35,000. If the CPI was 100.0 in 2008 and 107.5 in 2010, Carl's 2010 real income is _____.
A. RM32,000
B. RM32,558
C. RM34,400
D. RM37,625
10. Charlotte has a RM35,000 personal loan at a nominal interest rate of 7 percent. If the inflation rate is 2 percent what is the real interest rate paid on the loan?
A. 8 percent
B. 5 percent
C. 3 percent
D. 11 percent
11. Suppose the rate of inflation unexpectedly falls from 7% to 4%. Which one of the following would most likely benefit from this unexpected reduction in the rate of inflation?
A. debtors
B. creditors
C. debtors and creditors
D. a borrower whose loan has a fixed nominal interest rate
12. Phillip is a 22-year old man who has no job and is available for work, but has not actively looked for a job in the last month. Phillip would be identified as _____, _____ the labour force, and _____ the working-age population.
A. unemployed; part of; part of
B. unemployed; part of; not part of
C. not unemployed; not part of; part of
D. not unemployed; not part of; not part of

Continued...

13. If there is no change in the working-age population but the number of people in the labour force _____, then _____.
- A. increases; the labour force participation rate increases
 - B. decreases; the labour force participation rate increases
 - C. increases; the unemployment rate definitely increases
 - D. decreases; the unemployment rate definitely decreases
14. Joann has just lost her job because her company was faced with more foreign competition and decided to restructure, which reduced the number of jobs at the company. Joann is _____.
- A. cyclically unemployed
 - B. seasonally unemployed
 - C. frictionally unemployed
 - D. structurally unemployed
15. When the economy is at full employment, the _____.
- A. unemployment rate is equal to 0 percent
 - B. natural unemployment rate is equal to 0 percent
 - C. frictional unemployment rate is equal to 0 percent
 - D. natural unemployment rate equals the unemployment rate
16. The price level in the economy between 2007 and 2008 rose from 100 to 110. Between 2008 and 2009, the price level rose from 110 to 121. How does the short-run Phillips curve predict the unemployment rate will change as a result?
- A. The unemployment rate will increase since inflation increased.
 - B. The unemployment rate will decrease since inflation increased.
 - C. The unemployment rate will decrease since inflation decreased.
 - D. The unemployment rate will not change since there is no change in the rate of inflation.
17. If India has absolute advantage in rug production as compared to England, then _____.
- A. India should export rugs to England
 - B. England should export rugs to India
 - C. England uses fewer resources to produce rugs than India
 - D. India uses fewer resources to produce rugs than England
18. The United Kingdom imports t-shirts because _____.
- A. it is a dangerous job to produce them
 - B. foreign nations have a lower opportunity cost of production
 - C. the United Kingdom has a lower opportunity cost of production
 - D. foreign economies have an absolute advantage in their production
19. If the world price of a good is below the no-trade domestic price, a country _____.
- A. will benefit from exporting the good
 - B. will benefit from importing the good
 - C. will not engage in trade for that good
 - D. has a comparative advantage in the production of that good

Continued...

20. Which of the following statements is **FALSE**?
- A. The production possibilities curve shows the combinations of goods that can be consumed by a nation before trade begins.
 - B. The production possibilities curve shows the combinations of goods that can be consumed by a nation after trade and specialisation begins.
 - C. The production possibilities curve shows the combinations of goods that can be produced by a nation before trading begins.
 - D. The production possibilities curve shows the combinations of goods that can be produced by a nation after trade and specialisation begins.
21. A quota is a _____.
- A. quantitative restriction on an import imposed by the importing country
 - B. quantitative restriction on an import imposed by the exporting country
 - C. tax that is imposed on a good when it crosses an international boundary
 - D. restriction on how much a customer can buy of a scarce good imposed by the seller
22. After a nation starts importing a good from overseas, the domestic price of the good _____.
- A. falls
 - B. rises
 - C. stays the same
 - D. might change, but more information about what the country exports is needed to determine if the price rises, falls, or does not change
23. If a British firm earns profits while operating a business in Malaysia, then the value of the profit is entered as a _____ in the UK _____ account.
- A. negative; current account
 - B. positive; current account
 - C. negative capital account
 - D. negative; official reserves account
24. Which of the following would increase the balance on the current account?
- A. an increase in imports
 - B. an increase in the balance of trade
 - C. an increase in foreign direct investment
 - D. an increase in the amount of aid money the government sends abroad
25. Credit items in the balance of payments correspond to _____.
- A. any item that supplies foreign exchange
 - B. any item that demands foreign exchange
 - C. any item that increases the domestic money supply
 - D. any item that decreases the domestic money supply

Continued...

26. If the foreign investment in Malaysia is _____ than Malaysia investment abroad, the Malaysia capital account balance is _____.
- A. less than; zero
 - B. less than; positive
 - C. greater than; positive
 - D. greater than; negative
27. If an English suit costs £200 and the exchange rate is \$1.50 per pound, the suit would cost an American _____.
- A. \$133.33
 - B. \$200
 - C. \$400
 - D. \$300
28. A currency is said to appreciate _____.
- A. when it floats
 - B. when it can buy more foreign exchange
 - C. when its demand curve slopes downward
 - D. when the country uses a fixed exchange rate system
29. A demand for foreign exchange occurs in the United States when _____.
- A. foreigners travel in America
 - B. the United States exports wheat
 - C. Americans invest in foreign countries
 - D. Americans receive dividends and interest on their European investments
30. Which of the following will **NOT** shift the demand for yen to the right?
- A. an increase in interest rates in Japan
 - B. a decrease in the demand for Japanese goods
 - C. an increase in incomes in countries that buy goods from Japan
 - D. expectations among speculators that the price of yen will rise in the future

Continued...

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1**Part A**

Suppose the balance sheet of First National Bank is as shown in *Exhibit 1*.

| First National Bank | | | |
|---------------------|------------------|--------------------|------------------|
| <u>Assets</u> | | <u>Liabilities</u> | |
| Required reserves | | Checkable deposits | \$100,000 |
| Excess reserves | \$5,000 | | |
| Loans | \$70,000 | | |
| | <u>\$100,000</u> | | <u>\$100,000</u> |

Exhibit 1

- Based on *Exhibit 1*, calculate the required reserve ratio. (2 marks)
- Suppose Brad Pitt deposits \$40,000 into his checking account in First National Bank. Based on his deposit, calculate the required reserves and excess reserves? (4 marks)
- If the bank loans out all of its excess reserves, what are the new amount of loans that can be given out by First National Bank? (2 marks)
- Calculate the value of money multiplier. (1 mark)
- Calculate total amount of money created from the new loans after infinite rounds of depositing and lending in the banking system. (2 marks)

Part B

- Explain how the equilibrium in money market would be restored if the nominal interest rate is below equilibrium. (3 marks)
- Explain by using graphs on how an expansionary monetary policy can increase employment and the equilibrium level of real GDP with no impact on price level. (9 marks)

Continued...

Part C

- a) Suppose the population in country Y is 18 million. Also assume that the working-age population is 15 million, the labour force is 12.5 million, and the employment is 12 million.
- Calculate the unemployment rate of country Y.
(1.5 marks)
 - Now suppose that 0.2 million students graduate from college/university in country Y begin to look for jobs. What is the new unemployment rate if none of the students have found jobs yet?
(1.5 marks)
 - Suppose that all 0.2 million students found jobs. What is the unemployment rate now?
(1.5 marks)
- b) In each of the following cases, classify the following individual as frictionally, structurally, or cyclically unemployed.
- Danisha was laid off from her technical support job because of a strike by production workers and is currently looking for a new job.
 - Rita graduated from college and is currently looking for a job.
 - Arman quit his old job and will begin his new job in four days.
 - Thorton was fired from his job as a steel worker because of massive imports of steel and he is looking for a new job.
 - Bing Ho was laid off from his job as an appraiser because the firm's business declined due to a general downturn in the economy and he is currently looking for a new job as an appraiser.
(2.5 marks)
- [TOTAL 30 MARKS]

Question 2**Part A**

Consider two countries, 1 and 2, each capable of producing good A and good B. Assume that for a given amount of inputs, the production possibilities for these two countries are as shown in *Exhibit 2*.

| Country 1 | | Country 2 | |
|-----------|--------|-----------|--------|
| Good A | Good B | Good A | Good B |
| 200 | 0 | 75 | 0 |
| 160 | 20 | 60 | 15 |
| 120 | 40 | 45 | 30 |
| 80 | 60 | 30 | 45 |
| 40 | 80 | 15 | 60 |
| 0 | 100 | 0 | 75 |

Exhibit 2

- a) Calculate the opportunity cost of producing one unit of good A for each country.
(2 marks)

Continued...

- b) Calculate the opportunity cost of producing one unit of good B for each country. (2 marks)
- c) Which country has a comparative advantage in producing good A? Which country has a comparative advantage in producing good B? Briefly explain. (3 marks)
- d) If we assume that both countries will specialise in a good for which they have the comparative advantage, what would be the number of good A and good B would each country produce after specialisation? (2 marks)
- e) Suppose both countries specialise in a good for which they have the comparative advantage and trade 75 units of good A for 30 units of good B. What would be the consumption bundles of good A and good B after trade for both countries? (2 marks)

Part B

Suppose Vietnam allows trade in sugar and the world price of sugar is higher than the domestic price of sugar in Vietnam.

- a) If we assume that Vietnam is a price taker in the sugar market, will Vietnam import or export sugar? Briefly explain (1 mark)
- b) Using a diagram, show Vietnam's consumer surplus, producer surplus and total surplus before and after trade. (6 marks)
- c) Determine who wins and losses in Vietnam as a result of the sugar trade. Is Vietnam better off after trade? Briefly explain. (2 marks)

[TOTAL 20 MARKS]

Question 3

Part A

Exhibit 3 depicts the entries from the balance of payments of country Y for the year 2011.

| Item | Amount (\$ million) |
|---|---------------------|
| Merchandise exports | 370 |
| Income from foreign investment | 40 |
| Government transactions | -95 |
| Freight & insurance | 55 |
| Increase in net holdings of reserves assets | 20 |
| Travel & education | 115 |
| Current account balance | 85 |
| Income outflow for foreign-owned investment | 30 |
| Net unrequitted transfer | -60 |
| Errors and omissions | 35 |

Exhibit 3

Continued...

Based on *Exhibit 3* calculate

- a) service balance. (2 marks)
- b) trade balance. (3 marks)
- c) merchandise imports. (1.5 marks)
- d) capital account balance. (2.5 marks)

Part B

Suppose that yesterday, ringgit (RM) was trading on the foreign exchange market at 0.25 USD per RM. Today, the ringgit is trading at 0.26 USD per RM.

- a) Which of the two currencies (ringgit or the USD) has appreciated and which has depreciated today? Briefly explain. (2 marks)
- b) List **TWO** events that could have caused today's change in the value of the ringgit on the foreign exchange market. Did the events change the demand for ringgit or the supply of ringgit? (2 marks)
- c) Show the equilibrium of today's exchange rate in a diagram (3 marks)
- d) Suppose that now the exchange rate between ringgit and USD is fixed at 0.27 USD per RM. Show this fixed exchange rate in the diagram drawn in (c). (1 mark)
- e) Based on (d), has ringgit been overvalued or undervalued? What will happen to the balance of payments account of Malaysia? What will happen to the international reserves of Malaysia if the fixed exchange rate is maintained at 0.27 USD per RM? (3 marks)

[TOTAL 20 MARKS]

End of Paper